THE MARITIME LIFE ASSURANCE COMPANY

1996 Annual Report

MARITIME LIFE

Financial Highlights *(In millions of dollars)*

	1992	1993	1994	1995	**1996**
Assets Under Administration	$ 2,827	$ 3,162	$ 3,366	$ 4,263	$ 4,746
Capital and Surplus	224	235	252	282	298
Total Revenue	617	617	670	813	908
Net Income to Shareholders (after tax)	12	17	21	24	22
Inforce Individual Insurance Premiums	80	83	91	172	183
Inforce Group Insurance Premiums and Premium Equivalents	224	275	309	355	377
Investment Products Assets Under Administration	1,988	2,235	2,348	2,652	3,025

Maritime Life is a Canadian company that has been offering Canadians insurance and investment savings products since 1922. We serve businesses, individuals and families across the country, giving them strong, stable financial support backed by state-of-the-art technology. With $4.7 billion in assets under administration, Maritime Life is firmly established among the first rank of Canadian life insurance companies.

Maritime Life is proud to offer three distinct financial services to Canadians:

Individual Life Insurance

The individual life insurance division provides temporary and permanent life insurance for individuals and businesses. Maritime Life is the largest Canadian life insurer to rely solely on independent agents and brokers. Because independent agents represent a number of companies, Maritime Life has always worked hard to offer exceptional products. Offering innovative policy and planning options, we are giving Canadians the best of what's new while never forgetting just how much security matters.

Group Insurance

The group insurance division offers a full range of group life insurance, disability and health benefits to employers and unions in Canada. To better serve the market, Maritime Life offers sales and service claims adjudication, premium and contract administration from regional offices across the country. From flexible benefit administration to the delivery of client specific drug formulary plans – Maritime Life is able to offer a complete package of products and services.

Investment Products

The investment products division offers savings products to individuals and pension plan sponsors. Investors demand well-rounded portfolios and Maritime Life's range of new products offers diversity for the discerning investor. Again, the many options available to independent brokers make it imperative that our investment products division achieves the proper balance between innovation and security, risk and return.

John Hancock – Sharing Strengths

Since 1969, the John Hancock Mutual Life Insurance Company of Boston, Massachusetts has owned Maritime Life, its most profitable subsidiary. John Hancock does not control the day-to-day operations of Maritime Life. Instead, there is an ongoing exchange of expertise and ideas between the two companies. John Hancock also provides the unique perspective of one of the largest and most financially secure insurers in the United States.

The People of Maritime Life

Maritime Life has more than 800 employees – each one of whom is truly dedicated to customer service. From offices in Calgary, Halifax, Montreal, Toronto and Vancouver, employees use their knowledge, judgment and skill to meet and exceed customer expectations. Maritime Life is proud to support its employees with progressive and caring initiatives which enable them to concentrate on great work.

1996 – Moving Forward

This report highlights the performance of Maritime Life during the past 12 months. Facts and figures have been carefully assembled to give you a true picture of our financial strength. We describe successes and identify areas where we hope to improve – all with a view to continued growth in the years ahead.

1996 was a year of considerable progress at Maritime Life – in customer satisfaction, growth, profitability and in strategic developments that will help us move forward.

■ General agencies across Canada

Across Canada

The most visible progress took place in our regional offices across the country. Expansion of our Vancouver office, including full services for our group customers and enhanced marketing support for our individual life and investment products divisions, was completed in 1995. In 1996, we added a Calgary sales office for group insurance and retail products like segregated funds and individual life insurance. In Toronto, we have established new underwriting and policy issuing functions for individual life policies in addition to the policyholder services and comprehensive group insurance services already available. And in Montreal, we expanded our range of services to include sales and service for all product lines. We also built a corporate services function that supports our 80 employees in Montreal who now work from a common location enabling us to deliver service in French for all aspects of our business.

Technology

During 1996, we made a commitment to advance our technology to the forefront of the industry. We are building new systems to help agents and agencies serve customers quickly and efficiently. A national network of dedicated servers and private communication lines is being built to host these applications. All of our investment products applications are being unified in a client-server environment. New systems are also being implemented to help us better administer group life and disability claims and conceptual planning is underway for medical and dental claim systems as well. New systems are being built for improved internal reporting and communications.

While these developments are taking place, our business growth continues to exceed industry averages. After doubling sales between 1993 and 1995, our Individual Life sales grew by a further 17 per cent to $30 million of new annualized premium. Investment Products sales were even stronger, growing by 43 per cent to $467 million of premium. We were particularly successful in providing fund products which Canadians found attractive – making us one of the top five life companies in this important and growing market. New group sales were $42 million of premium in 1996. In 1996, there was a challenging, competitive environment, but we have identified a number of strategies necessary to resume our historic pattern of continued growth.

On the retail products side of the Company, an important and rapidly growing part of our sales is coming from National Accounts, national brokerage houses and independent mutual fund distributors that are becoming an increasingly important vehicle for distribution of life products. The sales success in National Accounts resulted from our excellent and expanding relationships with these two major Canadian distribution methods. Our comprehensive product line and unequalled marketing support services are especially well-suited to this fast growing method of getting products to market.

Satisfied customers

Our group insurance division has always been the Company leader in achieving high rates of customer satisfaction, with 93 per cent of customers satisfied or very satisfied with the products and services they received in each of the past three years (1993, 1994, 1995). In 1996, a remarkable 96 per cent of our group customers said they were satisfied or very satisfied with the products and services they received from Maritime Life. This occurred despite increasing customer expectations for faster claim payment, more personal service and better technology.

Customer satisfaction also improved among our Investment Products customers, exceeding 80 per cent for the first time. This was helped by strong fund performance and improved administrative service. However, the results indicate that for both these customers and our Individual Life policyholders, our plans to improve data access for distributors are critical to improving customer service.

Customer satisfaction for Individual Life customers did not improve. This resulted in part from price increases brought on by lower interest rates. We need to improve our communications with these customers, while identifying funding alternatives for their programs.

IN 1996, A REMARKABLE 96 PER CENT OF OUR GROUP CUSTOMERS SAID THEY WERE SATISFIED OR VERY SATISFIED WITH THE PRODUCTS AND SERVICES THEY RECEIVED FROM MARITIME LIFE.

Acquisition

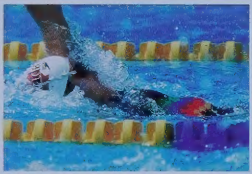
During 1996, we completed integration of the individual life business acquired from Confederation Life. This integration took place at several levels – data was computerized, relations with agents and agencies were strengthened and employees in Toronto, Montreal and Halifax were specially trained. By the end of the year, policy termination rates had begun to stabilize at an acceptable level. In general, we are very satisfied with the contribution this block of business is making to both our growth and profitability.

Profits

In 1996, we earned profits of $22.3 million. This reduction from $24.1 million in 1995 was primarily the result of significant investments in new systems, all of which were expensed in 1996. Although this investment will continue in 1997, we expect earnings to improve significantly. A detailed discussion of profits is provided in the Report on Operations.

Sponsorship

In 1996, we celebrated our sponsorship of the Centennial Olympic Games in Atlanta. This also gave us cause to celebrate the relationship we enjoy with our parent company, John Hancock – a relationship that has benefited both companies for more than a quarter century.



During the summer of 1996, John Hancock and Maritime Life reached an agreement with the International Olympic Committee (IOC) to continue this sponsorship for a further four years, including the 1998 Winter Games in Nagano, Japan, and the 2000 Summer Games in Sydney, Australia.

Summary

We look to the future and see opportunities. And we have the financial resources to take advantage of them. Both our balance sheet and our earnings remain strong and stable. This strength comes from our commitment to work exclusively through independent distributors, whose share of the market continues to grow. It comes from the skill and dedication of more than 800 employees in service centres across Canada. And it comes from our commitment to develop sophisticated, cost-effective, and useful technologies to help us reach our customer service and performance goals. The industry continues to be competitive, and Maritime Life is well positioned to compete.

W A Black

W. A. Black
President and Chief Executive Officer

In 1969

Maritime Life became a wholly-owned subsidiary of the John Hancock Mutual Life Insurance Company. The 27-year relationship has proven to be a tremendous asset to John Hancock.

Maritime Life is by far John Hancock's largest and most profitable subsidiary. When John Hancock purchased Maritime, its assets under administration were $30 million. This year, its assets under administration topped $4.7 billion. Maritime Life now represents approximately 6 per cent of John Hancock's consolidated assets.

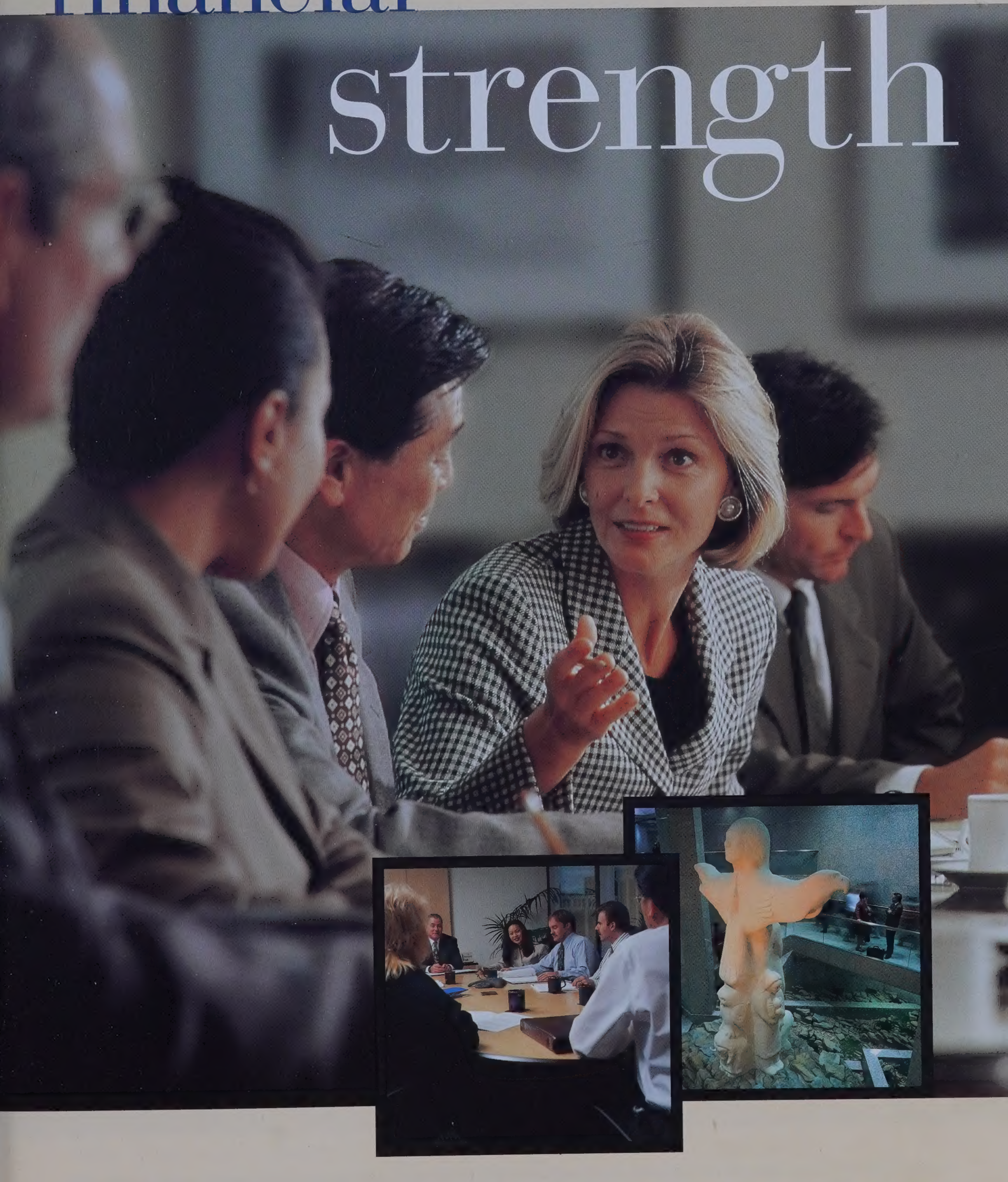
They are one of the strategic partners that have made Hancock a diversified global corporation. From the John Hancock perspective, the importance to our overall operations of subsidiary results, particularly those of Maritime Life, cannot be overstated.

Our relationship with Maritime grows stronger each year. We have come to rely on Maritime's leadership, innovation, and outstanding independent distribution system. It's a relationship we expect to flourish in the years to come.

Like many other financial service companies, we are constantly faced with challenges. But with those challenges come opportunities. We look forward to working with Maritime on meeting these challenges, expanding our existing business opportunities and creating new ones.

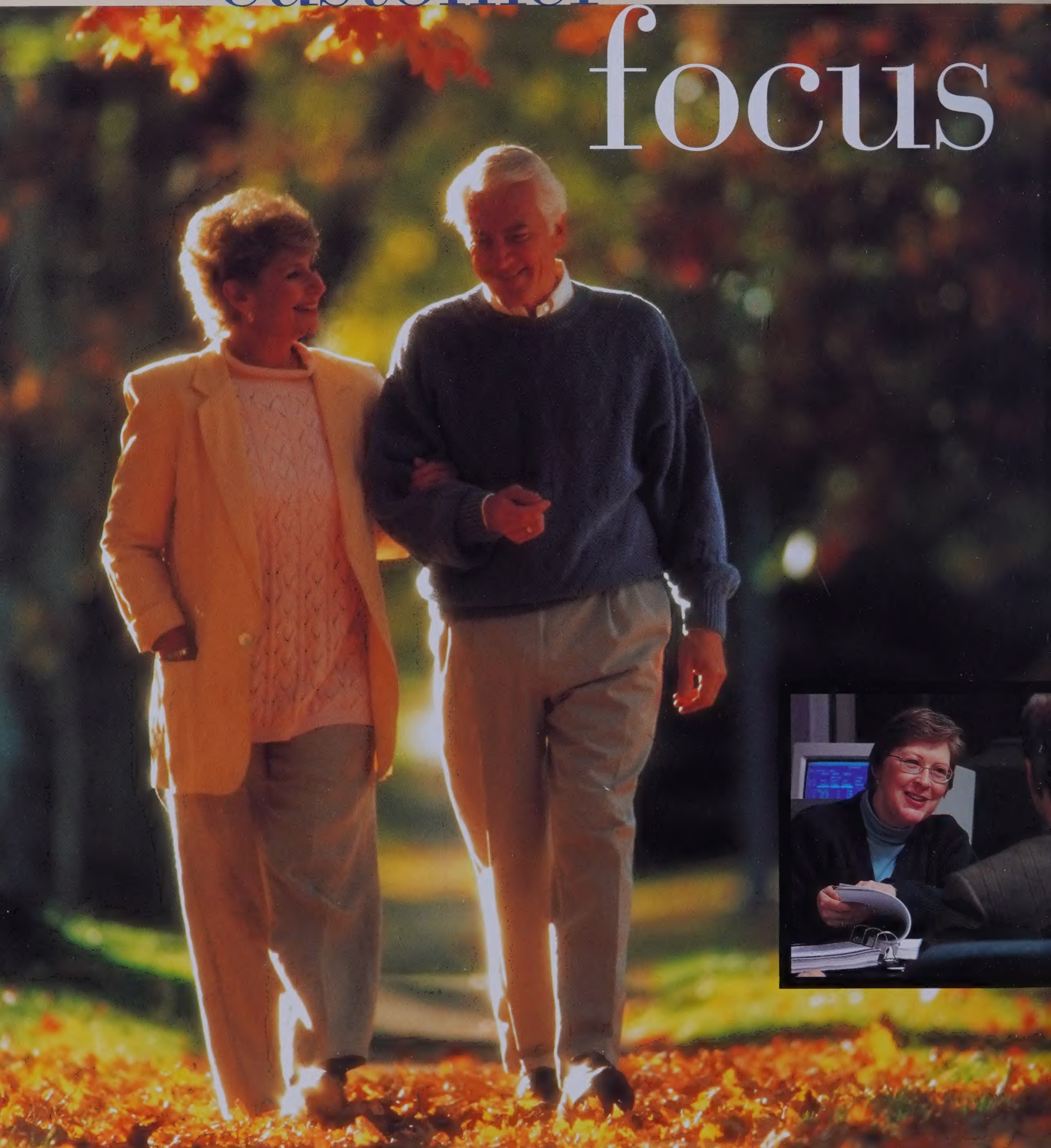
Thomas E. Moloney
Chief Financial Officer
John Hancock Mutual Life Insurance Company

financial strength



Maritime Life offers insurance and investment savings products and services to Canadian families and businesses. Built on a lasting foundation, it now ranks among the top 10 life insurance companies in Canada. The Company's strategic direction includes maintaining an effective and strong capital position along with significant holdings in government insured investments. This strategy is fully supported by our parent, John Hancock Mutual Life Insurance. Far from giving rise to complacency, our solid financial position enables us to explore opportunities for future growth with confidence. Our view to the future is to continue our momentum and augment our financial strength.

customer focus



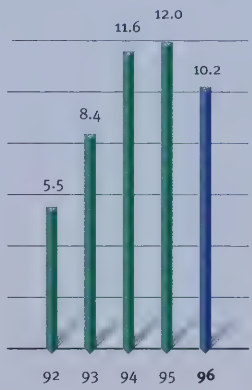
Maritime Life has a relationship with its customers that is unique in Canada. There is an abiding dedication to customer satisfaction at all levels of our company. In fact, a written mandate created by employees gives each Maritime Life employee the responsibility to do what is best for the customer. This ideal is summed up in one statement: If it is good for your customer and you know it makes sense, then do it. We talk to all of our distributors regularly to determine if we are meeting their business needs. It is this focus on customer satisfaction that has seen our company grow from a regional insurance company to a national provider of insurance and financial products. And this focus will serve as the cornerstone for future growth.

Return on common shareholders' equity exceeded 10 per cent for the third year in a row as the Company earned $22.3 million in net income for its shareholders in 1996 versus $24.1 million in 1995. Return on common shareholders' equity was 10.2 per cent in 1996 versus 12.0 per cent in 1995. Higher expense levels associated with investment in improved computerized systems to better service existing business and support future growth temporarily reduced profitability in 1996.

Sources of company profits followed trends established in the last several years. We earn profits through the investment of policyholder funds and the margins on the mortality and morbidity risks. The mortality and morbidity risks are underwritten through our individual life and group insurance products while the investment of policyholder funds occurs on many of our products, especially on savings products and permanent life insurance. During 1996, overall mortality and morbidity levels in our various products and lines were generally in line with expected levels.

Premium reported on the revenue statement increased about 11 per cent. This premium does not include deposits which go directly to segregated funds, which were $326 million in 1996 versus $136 million in 1995, an increase of 140 per cent. The consumer shift to segregated funds is also reflected in the $63 million transfer from our general (guaranteed) fund to segregated funds in 1996, while the reverse occurred in 1995 with a $79 million transfer from our segregated funds to our general fund. Benefits paid out during 1996 were $618 million, up $58 million over 1995. Much of this increase represents the transfer of policyholder investment product savings to other financial institutions. There is intense activity within the financial services industry to attract the savings of Canadians who are preparing for their retirement. We have seen this activity in both the growth of our new deposits and the movement out of previous years' deposits.

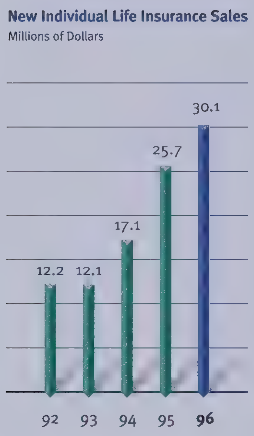
Return on Common Equity



Investment revenue was $285 million in 1996 with most of this allocated to our policyholders through guarantees and commitments in our insurance and savings products. The investment revenue of $285 million is net of investment expenses, including losses on investment principal in 1996 of $14.7 million ($17.3 million in 1995). We anticipate a downward trend in investment losses over the next several years as real estate markets recover slowly in most parts of Canada.

Administrative expenses were up 21 per cent in 1996, reflecting both the increase in our business through strong sales in the past few years as well as significant initiatives to improve our use of technology in customer service. We expect to see productivity improvements over the next several years as business growth outpaces the growth in expenses.

Overall, we expect to see profit levels improve through the latter part of the nineties as investment losses decrease, productivity improves, and business grows through continued strong sales.



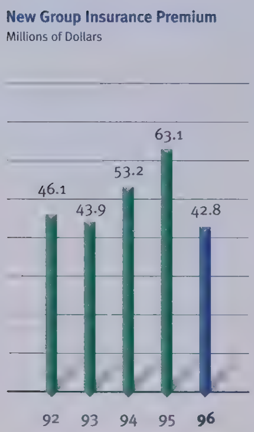
Individual Life

Sales of new insurance products to customers rose to $30.1 million in 1996, a 17 per cent increase over 1995 sales of $25.7 million. Strong sales in the last few years along with the addition of the Confederation Life block of business acquired in 1995 have combined to push our inforce annualized premium to $183 million.

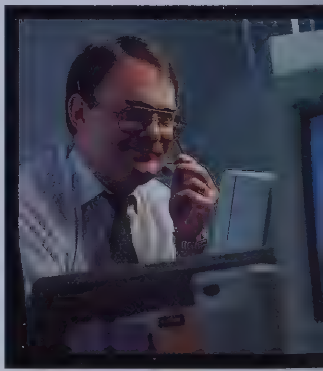
For 20 years, the Company has distributed its individual products exclusively through independent distributors. We have the services in place across Canada to support those independent distributors who choose to work with Maritime Life. We intend to continue this strategy of marketing our life insurance and investment products.

Investment Products

New deposits rose to a record level of $467 million in 1996, up 43 per cent from 1995. In addition to the strong surge in sales, there was a marked shift to our segregated fund portfolio offerings. In 1995, segregated fund deposits were less than (about two-thirds) the amounts received for guaranteed interest rate products (GIC's). In 1996, segregated fund deposits were more than one-and-a-half times the amounts received for GIC's. We expect to see this trend continue in 1997, reflecting a general consumer preference for segregated funds when interest rates are lower and stock market returns are attractive. The diversity of our segregated funds together with their steady performance should make for continued strong growth in this area.



Group Insurance



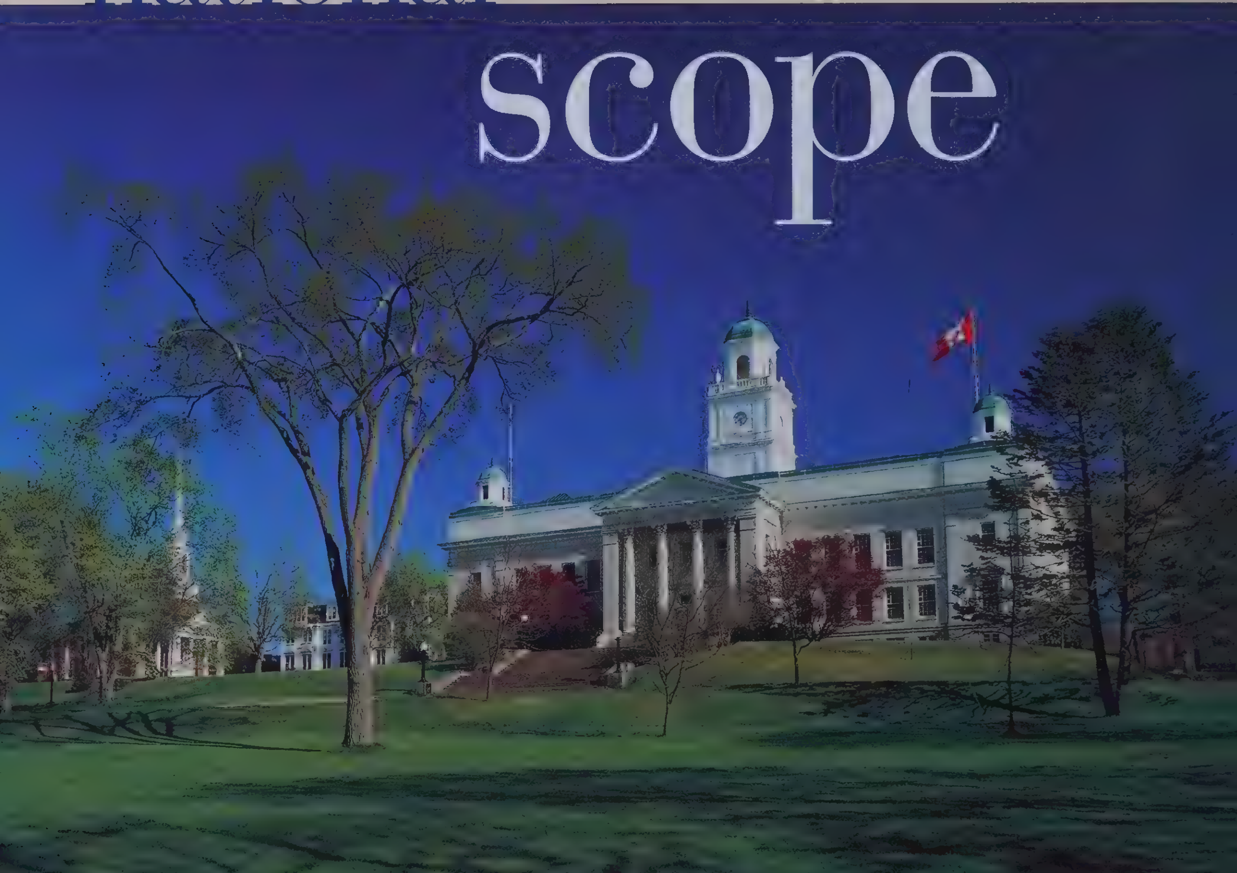
Sales of new group benefits to Canadian companies were at $42.8 million in 1996. Down from an outstanding $63.1 million in 1995, these results reflect a shift downward in the average premium per group policy. In fact, the 97 new sales recorded in 1996 were up from 71 in 1995. While new sales premium did not increase, retention of our existing clients was excellent, resulting in our total inforce premium and premium equivalents increasing from $355 million in 1995 to $377 million in 1996. This comes as no surprise given our ongoing commitment to customer satisfaction (Maritime Life's group insurance division enjoyed a 96 per cent satisfaction rating in 1996). We are optimistic that new sales will improve in 1997.

leading technology

Over the past 18 months Maritime Life has undertaken a number of technology initiatives. By providing our employees with the latest and best technology, we are better able to give our customers the sound financial management and timely information that they require. Technology innovations in each division are designed to get market information into the hands of employees, our business associates and customers. Our active software development function will find better ways to get information about our products and services to agents and consultants, clients and potential clients. Technology-based initiatives will continue well into the future.

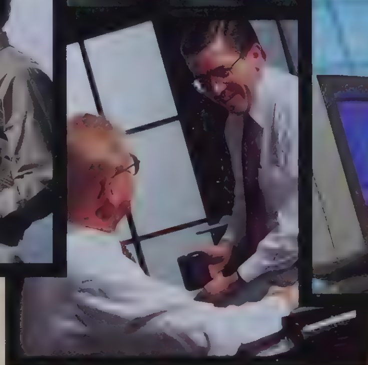
From individuals and families to national institutions
- we're working for all Canadians

national scope

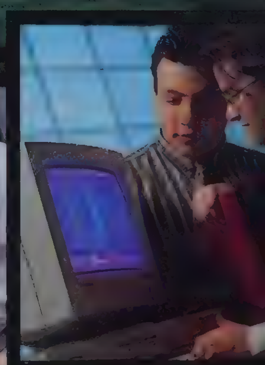


10:00 AM **Vancouver**

11:00 AM **Calgary**



1:00 PM **Toronto**



1:00 PM **Montreal**

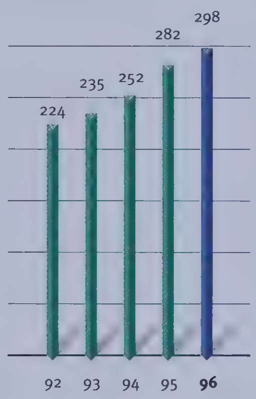
At Maritime Life, the business day starts just before 8 a.m. Atlantic Time and finishes at 6 p.m. Pacific Time. That means we're working for our customers, agents, brokers and consultants across Canada for 14 straight hours, not to mention overtime. We're truly a national organization, with offices in Halifax, Montreal, Toronto, Calgary and Vancouver. Maritime Life is headquartered in Halifax, but we do 85 per cent of our business west of New Brunswick. We recognize the importance of serving all Canadians. With the technology links of today – phone, fax, electronic mail, electronic data transfer and Internet – our five regional offices can stay in contact with Canadians everywhere and respond to their concerns immediately, giving them fast, efficient, and comprehensive service.

Financial Strength

At December 31, 1996 the Company had assets of $3.1 billion which are required to back promises to meet obligations to policyholders. In addition, an extra $298 million of assets were available at 1996 year-end to further protect our policyholders. The $298 million represents the Company's capital and surplus as defined by regulations. The financial industry is subject to a high level of regulation and all insurance companies are required to carry a minimum level of capital referred to as Minimum Continuing Capital and Surplus Requirements (MCCSR). At December 1996, Maritime Life had capital equal to 170 per cent of the required amount versus 178 per cent at December 1995 measured on a consistent basis. (In 1996 the required capital component in respect of mortgages was increased - applying this change at December 1995 reduced the 1995 ratio from 190 per cent to 178 per cent).

In addition to maintaining capital, the Company diversifies its investments in various types of assets. Bonds and mortgages make up the largest part of these investments but there is diversification within these classes as well. Our mortgage portfolio is distributed across Canada and about 50 per cent of these mortgages are insured by the federal government (CMHC). Our bond portfolio is made up of government bonds, corporate bonds which are publicly traded and private placement bonds (a bond issued to only one or a few investors who negotiate terms directly with the issuer). Our government insured mortgages and government bonds make up 35 per cent of our total assets.

Capital and Surplus
Millions of Dollars



Dividend Policy

Dividend scales for participating insurance policies are declared on an annual basis and distributed according to the contract. The amount of surplus available for distribution is influenced by trends in earnings and experience, by dividend guarantees and by the need to maintain the long-term vitality of the participating fund. Maritime Life uses the contribution principle to allocate divisible surplus to individual policies in proportion to their contribution to earnings. The allocation process strives to ensure reasonable equity among different classes and generations of participating policies as well as equity among individual policies within each class. The determination of dividends complies with regulatory and professional standards in all respects.

2:00 PM **Halifax**

Responsibility For Financial Reporting

Management

The accompanying financial statements have been prepared by management in accordance with generally accepted accounting principles. When alternative accounting methods exist, management has chosen those it deems most appropriate in the circumstances. The financial statements necessarily include amounts that are based on management's best estimates and judgment. These financial statements fairly reflect the financial position and results of operations of the Company within reasonable limits of materiality.

In carrying out its responsibilities, management maintains appropriate systems of internal and administrative controls, consistent with reasonable cost, designed to ensure that the financial information produced is relevant and reliable and that the Company's assets are appropriately accounted for and adequately safeguarded.

Board of Directors

The financial statements were approved by the Board of Directors which has overall responsibility for their content.

Audit Committee

The Board of Directors is assisted in its responsibility by its Audit Committee, which consists entirely of Directors not involved in the daily operations of the Company. The function of the Audit Committee is to:

- Review and recommend approval to the Board of Directors of annual audited financial statements.
- Review the Company's internal audit and financial control systems.
- Meet separately with the internal and external auditors.
- Recommend the appointment of the external auditors and their fee arrangement to the Board of Directors.
- Review other audit, accounting and financial reporting matters as required.

In carrying out this function, the Committee meets with management and both the Company's external and internal auditors to approve the scope and timing of the respective audits, to review their findings, and to satisfy itself that the audit responsibilities have been properly discharged.

Appointed Actuary

The Appointed Actuary of the Company is named by the Board of Directors pursuant to Section 165 of the Insurance Companies Act to carry out an annual valuation of the Company's policy liabilities in accordance with the Recommendations for Life Insurance Company Financial Reporting of the Canadian Institute of Actuaries for the purpose of issuing reports to the policyholders and to the Superintendent of Financial Institutions Canada.

External Auditors

KPMG has been appointed external auditor pursuant to Section 337 of the Insurance Companies Act to report to the policyholders and to the Superintendent of Financial Institutions Canada regarding the fairness of presentation of the Company's financial position and results of operations as shown in the annual financial statements. The auditors' report appears with these financial statements.

William A. Black
President and
Chief Executive Officer

Philip J. Pothier
Senior Vice President and
Chief Financial Officer

Auditors' Report

To the Shareholders and Policyholders of The Maritime Life Assurance Company

We have audited the balance sheets of The Maritime Life Assurance Company as at December 31, 1996 and 1995 and the statements of income, retained earnings, changes in participating account, changes in financial position and changes in segregated fund assets for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1996 and 1995 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles including the accounting requirements of the Superintendent of Financial Institutions Canada.

KPMG

KPMG
Chartered Accountants
Halifax, Canada
January 31, 1997

Appointed Actuary's Report

To the Shareholders and Policyholders of The Maritime Life Assurance Company

I have valued the policy liabilities in the Company's balance sheets as at December 31, 1996 and 1995 and their increase in its statements of income for the years then ended in accordance with accepted actuarial practice.

In my opinion, the valuations are appropriate and the financial statements fairly present their results.

Byron Corner

Byron Corner
Fellow, Canadian Institute of Actuaries
Halifax, Canada
January 31, 1997

Balance Sheets

As at December 31, 1996 and 1995 — *(In thousands of dollars)*

		1996	1995
Assets	**Invested assets** *(note 2)*		
	Cash and short-term investments	$ 33,259	$ 152,065
	Bonds	990,325	916,523
	Mortgages	1,820,297	1,823,809
	Stocks	269,584	226,532
	Real estate	79,746	61,981
	Loans to policyholders	79,701	83,996
	Other	21,852	3,371
		3,294,764	3,268,277
	Other assets		
	Premiums receivable	26,839	19,391
	Accrued investment income	27,077	33,328
	Other *(note 3)*	43,777	57,913
		97,693	110,632
		$ 3,392,457	$ 3,378,909
	Segregated fund assets under management	$ 1,353,588	$ 867,965

		1996	1995
Liabilities, Participating Account and Shareholders' Equity	**Policy liabilities**		
	Provision for future policy benefits *(note 5 and 6)*	$ 2,707,123	$ 2,685,558
	Provision for experience rating refunds	10,262	20,922
	Provision for policyholders' dividends	8,877	9,617
	Policyholders' funds on deposit	108,285	150,113
	Benefits payable and provision for unreported claims	36,154	24,004
	Notes payable to reinsurers *(note 8)*	115,295	116,841
		2,985,996	3,007,055
	Other liabilities		
	Income taxes payable	5	5,386
	Deferred income taxes	11,541	13,137
	Deferred net gains on disposal of portfolio investments *(note 2)*	31,834	19,360
	Other *(note 7)*	64,836	51,648
		3,094,212	3,096,586
	Subordinated debt *(note 9)*	46,000	46,000
	Participating account *(note 10)*	6,756	8,064
	Shareholders' equity:		
	Share capital *(note 11)*	88,745	88,745
	Retained earnings	156,744	139,514
		298,245	282,323
Commitments (note 19)			
See accompanying notes to financial statements		$ 3,392,457	$ 3,378,909

On behalf of the Board:

John W. Lindsay — J. W. Lindsay, *Chairman of the Board*

W A Black — W. A. Black, *President and Chief Executive Officer*

Statements of Income

Years ended December 31, 1996 and 1995 *(In thousands of dollars)*

	1996	1995
Revenue		
Premiums *(note 6)*	$ 601,459	$ 537,362
Investment income *(note 12)*	284,846	259,615
Other income	21,975	16,425
	908,280	813,402
Policy benefits and expenses		
Policy benefits *(note 6)*	617,998	559,655
Provision for future policy benefits	23,740	154,928
Transfer to (from) segregated funds	62,810	(79,079)
Commissions and operating expenses *(note 6)*	133,009	109,349
Dividends to policyholders	12,924	14,029
Premium and investment income taxes	14,184	11,136
Interest on notes payable *(note 8)*	9,604	7,299
	874,269	777,317
Net operating income before interest on subordinated debt and taxes	34,011	36,085
Interest on subordinated debt *(note 9)*	(4,613)	(4,015)
Income taxes *(note 13)*	(8,358)	(5,991)
Undistributed participating policyholders' income	1,308	(2,010)
Net income to shareholders *(note 14)*	$ 22,348	$ 24,069

Earnings per share (note 15)
See accompanying notes to financial statements

Statements of Retained Earnings

Years ended December 31, 1996 and 1995 *(In thousands of dollars)*

	1996	1995
Balance, beginning of year	$ 139,514	$ 117,620
Net income to shareholders	22,348	24,069
Dividends to shareholders:		
Preferred	(1,620)	(2,175)
Common	(3,498)	–
Balance, end of year	$ 156,744	$ 139,514

See accompanying notes to financial statements

Statements of Changes in Participating Account

Years ended December 31, 1996 and 1995 *(In thousands of dollars)*

	1996	1995
Balance, beginning of year	$ 8,064	$ 6,054
Undistributed participating policyholders' income	(1,308)	2,010
Balance, end of year	$ 6,756	$ 8,064

See accompanying notes to financial statements

Statements of Changes in Financial Position

Years ended December 31, 1996 and 1995	*(In thousands of dollars)*	1996	1995
Cash provided by (used in):	**Operations**		
	Gross income	$ 908,280	$ 813,402
	Policy benefits, operating costs and other items (net)	(891,181)	(726,917)
		17,099	**86,485**
	Investments		
	Increase in bonds	(64,402)	(110,107)
	Increase in stocks	(21,469)	(26,843)
	Increase in mortgages	(11,446)	(74,655)
	Increase in real estate	(18,749)	(9,299)
	Decrease (increase) in other assets	(13,736)	65,307
	Purchase of fixed assets	(10,030)	(3,911)
		(139,832)	**(159,508)**
	Financing		
	Proceeds from subordinated debt	–	6,000
	Shareholders' dividends		
	Preferred	(1,620)	(2,175)
	Common	(3,498)	–
		(5,118)	**3,825**
	Net cash acquired upon assumption reinsurance agreement *(note 16)*	9,045	167,543
	Increase (decrease) in cash and short-term investments for year	(118,806)	98,345
	Cash and short-term investments, beginning of year	152,065	53,720
See accompanying notes to financial statements	**Cash and short-term investments, end of year**	**$ 33,259**	**$ 152,065**

Statements of Changes in Segregated Fund Assets

Years ended December 31, 1996 and 1995 *(In thousands of dollars)*	1996	1995
Segregated fund assets, beginning of year	**$ 867,965**	**$ 689,513**
Increase during the year		
Amounts received from policyholders	389,198	57,481
Amounts (transferred to) received from the shareholder fund	12,272	(1,165)
Investment income	36,764	28,012
Dividends	11,454	9,665
Net realized gain on sale of investments	51,974	33,875
Net unrealized increase in market value of investments	111,303	51,722
Assumption of block of business *(note 16)*	–	93,316
	612,965	**272,906**
Decrease during the year		
Amounts withdrawn by policyholders	(109,016)	(80,924)
Management fees and other operating costs	(18,326)	(13,530)
	(127,342)	**(94,454)**
Segregated fund assets, end of year	**$ 1,353,588**	**$ 867,965**
Segregated fund assets consist of:		
Cash and short-term investments	298,326	166,338
Bonds	288,100	209,310
Mortgages	3,977	3,927
Stocks	763,185	488,390
	$ 1,353,588	**$ 867,965**

See accompanying notes to financial statements

The Maritime Life Assurance Company (the "Company") is incorporated under a special Act of the Nova Scotia Legislature and pursuant to that Act is under the supervision of the federal Insurance Companies Act. It operates in the life insurance industry and operations cover the development and marketing of individual and group life, accident and health, pension and annuity business and the management of segregated fund investments.

The Company is subject to regulation by the Office of the Superintendent of Financial Institutions Canada (OSFI). Under regulations and guidelines prescribed by OSFI, the Company is required to maintain prescribed levels of capital which are dependent on the type and amount of insurance policies in force and the nature of the Company's assets. The Company currently exceeds these minimum capital requirements. OSFI governs the distribution of the Company's earnings through monitoring of adherence to prescribed capital requirements.

1. Significant Accounting Policies

These financial statements have been prepared in accordance with Subsection 331(4) of the Insurance Companies Act which states that, except as otherwise specified by OSFI, the financial statements are to be prepared in accordance with generally accepted accounting principles. The significant accounting policies used in the preparation of these financial statements, including the accounting requirements of OSFI, are summarized below. These accounting policies conform, in all material respects, to generally accepted accounting principles.

Change in Accounting Policy

Upon implementation of CICA Handbook Section 3025, Impaired Loans, the Company changed its accounting policy for impaired loans *(see Bonds and Mortgages)*. The effect of implementing these recommendations was not materially different from previous practice.

Bonds and Mortgages

Bonds and mortgages are carried at amortized cost, net of any allowance for losses. The difference between the proceeds on the sale of a security and its amortized cost is considered to be an adjustment of future portfolio yield and is deferred on the balance sheet and amortized to income over the remaining term to maturity.

The Company ceases to accrue interest on loans which are three months or more in arrears and considers these loans to be impaired as well as any loans which are deemed by management to be non-performing. Events and conditions considered in determining the charge to income during the year relating to the allowance for loan impairment include the value of the security underlying the loan, geographic location, industry classification of the borrower, an assessment of the financial stability of the borrower, repayment history and an assessment of the impact of the current economic conditions. Impaired loans are valued at an amount equal to the estimated net cash flows receivable, discounted at the effective interest rate inherent in the loan at the time of impairment. Any writedown is recognized immediately in income as a charge for loan impairment. Upon restructuring, impaired loans are recorded at an amount equal to the net cash flows receivable under the modified terms, discounted at the effective interest rate inherent in the loan at the time it was initially recognized as being impaired. Any reduction in the recorded investment is recognized in income as a charge for loan impairment. When collection of the scheduled future cash flows is reasonably assured, interest income is recognized, using the above inherent effective interest rate.

Stocks

Stocks are carried at moving average market value whereby the carrying value is adjusted towards market value at 15 per cent per annum. Net realized gains and losses on the disposal of stocks are deferred and amortized to income at 15 per cent per annum on a declining balance basis. A decline in market value for the portfolio of stocks that is considered to be other than temporary is recognized immediately.

Certain universal life insurance products permit a policyholder to choose a stock market based index as an investment option for the accumulated savings component of the policy. To support this liability, the Company has simulated these indices by investing in groups of common stocks. These groups of stocks are accounted for on a market value basis in order to match the market value of the liability.

Real Estate

Real estate held for investment, which includes own-use property, is carried at moving average market value whereby the carrying value is adjusted towards

market value at 10 per cent per annum. Net realized gains and losses are deferred and amortized to income at 10 per cent per annum on a declining balance basis. Market values on each property are determined annually and an independent appraisal is obtained every three years. The market value established is an estimate of the realizable value of each property and thus recognizes in that determination an element of depreciation. A decline in market value of the portfolio of real estate that is considered to be other than temporary is recognized immediately.

Real estate acquired on foreclosure and held for sale is carried at the lower of the investment in the loan foreclosed and the estimated net proceeds from sale of the property. Real estate acquired on foreclosure and held for income production is initially recorded at the lower of the investment in the loan foreclosed and the fair value of the assets. Subsequently, foreclosures held for income production are accounted for as investments. For both classifications, writedowns are recognized immediately in income as a charge for loan impairment in the year.

Loans to Policyholders

Loans to policyholders are carried at their unpaid balance and are secured by the cash surrender values of the policies against which the respective loans were made.

Derivative Financial Instruments

The Company uses derivative financial instruments to hedge specific transactions; any gains or losses, whether realized or unrealized, are recognized in income on the same basis as the asset or liability which has been hedged.

Other Assets

Other assets include furniture and equipment that are carried at cost less accumulated depreciation. Depreciation is provided on a straight-line basis over periods from four to seven years.

Policy Liabilities

Policy liabilities have been calculated using the policy premium method. Policy liabilities represent the amount which, together with future premiums and investment income, is estimated to be sufficient to pay future benefits, dividends and expenses under insurance and annuity contracts. The process of calculating policy liabilities necessarily involves the use of estimates concerning such factors as mortality and morbidity rates, future investment yields, future investment losses, future expense levels and rates of surrender. Consequently, policy liabilities include reasonable provisions for adverse deviations from those estimates.

Income Taxes

Income taxes are accounted for using the accrual method of tax allocation on a discounted basis. Under this method, a provision for deferred income taxes arises as a result of timing differences between income reported for financial statement purposes and for tax purposes. The major timing differences relate to policy liabilities, depreciation and invested assets.

Pension Expense and Obligation

The assets of the employees' pension plan are recorded at values that are adjusted to market over a period of five years. The pension expense for the year includes adjustments for plan amendments and experience gains, which are being amortized on a straight-line basis over the expected average remaining service life of the plan participants.

Segregated Fund Assets

Certain policy contracts allow the policyholder to invest in segregated investment funds of the Company. The assets of these funds are carried at their year-end market values. The income for these funds includes all realized and unrealized gains and losses, net of related expenses and is included in the value of the fund. Substantially all risks and rewards of ownership accrue to these policyholders; consequently, assets held in segregated fund accounts are not consolidated with the assets of the Company. The segregated accounts business is maintained separately from the general account business.

2. Invested Assets

The market values, where applicable, and related carrying values of investments as of December 31 are as follows:

		1996		1995	
		MARKET VALUE	CARRYING VALUE	MARKET VALUE	CARRYING VALUE
Cash & short-term investments		$ 33,259	$ 33,259	$ 152,065	$ 152,065
Bonds	– government	247,227	220,304	359,892	333,993
	– public	367,322	331,651	319,410	287,775
	– private placements	443,610	438,370	297,059	294,755
Mortgages	– government insured	975,977	905,512	917,147	864,731
	– commercial	792,657	733,428	827,036	778,488
	– residential	195,469	181,357	191,756	180,590
Stocks	– preferred	157,659	150,449	147,259	145,580
	– common	68,551	68,551	52,077	44,205
	– private placements	50,584	50,584	36,686	36,747
Real estate	– foreclosed	285	285	2,590	2,401
	– investment	71,701	79,461	54,607	59,580
Loans to policyholders		79,701	79,701	83,996	83,996
Other		21,852	21,852	3,371	3,371
		$ 3,505,854	$ 3,294,764	$3,444,951	$ 3,268,277

The market value of mortgages is calculated by discounting scheduled cash flows through the estimated maturity, using estimated market discount rates. Market values for other assets are derived from available quoted sources where a ready market exists. Where a ready market does not exist, or an external source is unavailable, carrying value is used. To the extent that invested assets are used to match policy liabilities, a change in the market value of the assets due to interest rate changes will have a similar effect on the liabilities and will not affect future corporate earnings.

Deferred net gains (losses) on disposal of invested assets are comprised of the following:

	1996	1995
Bonds	$ 27,762	$ 17,033
Mortgages	(1,371)	(2,367)
Stocks	5,960	4,694
Real estate	(517)	–
	$ 31,834	$ 19,360

Investments classified as non-performing are as follows:

	1996			1995		
	BOOK VALUE	ALLOWANCE FOR LOAN IMPAIRMENT	CARRYING VALUE	BOOK VALUE	ALLOWANCE FOR LOAN IMPAIRMENT	CARRYING VALUE
Mortgages						
Government insured	$ 13,489	$ (57)	$ 13,432	$ –	$ –	$ –
Commercial	113,521	(21,317)	92,204	106,255	(25,813)	80,442
	$ 127,010	$ (21,374)	$ 105,636	$ 106,255	$ (25,813)	$ 80,442

In addition, the policy liabilities for insurance and annuity contracts include provisions for potential future asset default losses *(see note 5).*

The continuity of the allowance for loan impairment during the year was as follows:

	1996	1995
Balance, beginning of year	$ 25,813	$ 14,444
Provision for loan impairment	14,749	17,301
Reduction due to dispositions	(18,543)	(6,903)
Write-offs of loans, net of recoveries	(645)	971
Balance, end of year	**$ 21,374**	**$ 25,813**

3. Other Assets

At December 31, other assets consist of:

	1996	1995
Furniture and equipment	$ 52,300	$ 42,974
less: accumulated depreciation	(39,743)	(35,588)
Subtotal	12,557	7,386
Advances to segregated funds	10,120	18,707
Acquisition receivables	930	12,763
Deferred pension costs	6,421	5,572
Miscellaneous	13,749	13,485
	$ 43,777	$ 57,913

4. Derivative Financial Instruments

The Company uses derivative financial instruments where appropriate in the administration of its asset liability management strategies and to assist in the management of financial risks, including interest rate and foreign exchange risks. All of the Company's derivative financial instruments have been purchased over the counter and are held for hedging purposes, not for speculation.

The notional principal amount of derivative instruments represents an amount to which a rate or price is applied in order to calculate the exchange of cash flows. Notional principal amounts are frequently used as an indicator of business activity, however, they are not indicative of credit or market risk exposure and are not recognized in the financial statements. The following table classifies the types of notional principal amounts held at year end and the remaining term to maturity:

	TERM TO MATURITY				1996	1995
	WITHIN 1 YEAR	1 TO 5 YEARS	5 TO 10 YEARS	OVER 10 YEARS	TOTAL NOTIONAL AMOUNT	TOTAL NOTIONAL AMOUNT
Interest rate swaps	$ 45,498	$ 52,800	$ 5,000	$ 8,557	$ 111,855	$ 119,600
Cross currency swaps	–	40,168	49,823	23,426	113,417	115,219
	$ 45,498	$ 92,968	$ 54,823	$ 31,983	$ 225,272	$ 234,819

Credit Exposure

Credit risk is the exposure to loss in the event of non-performance by the counterparty to the transaction. The Company evaluates and monitors the credit risk of its derivative financial instruments, in much the same way as the credit risks associated with its other financial instruments. All of the counterparties for the Company's derivative activities are financial institutions rated AA or better by independent rating agencies.

The following table provides a summary of the Company's derivative portfolio and related credit risk exposure. Current credit risk represents the replacement cost of all outstanding derivative contracts with a positive value. Credit equivalent amount represents the current credit risk exposure plus an estimate of the impact that future changes in interest and foreign currency rates and other indices would have, based upon a formula prescribed by OSFI. Risk-weighted balance represents the credit risk equivalent weighted according to the credit-worthiness of the counterparty, also as prescribed by OSFI.

1996	NOTIONAL AMOUNTS	CURRENT CREDIT RISK	CREDIT EQUIVALENT AMOUNT	RISK WEIGHTED EQUIVALENT
Interest rate swaps	$ 111,855	$ 4,364	$ 4,831	$ 78
Cross currency swaps	113,417	5,215	12,717	204
	$ 225,272	$ 9,579	$ 17,548	$ 282

1995	NOTIONAL AMOUNTS	CURRENT CREDIT RISK	CREDIT EQUIVALENT AMOUNT	RISK WEIGHTED EQUIVALENT
Interest rate swaps	$ 119,600	$ 4,501	$ 5,025	$ 81
Cross currency swaps	115,219	2,492	9,205	156
	$ 234,819	$ 6,993	$ 14,230	$ 237

The following table summarizes the fair value, as represented by the sum of the net unrealized gains and losses, accrued interest receivable and payable and premiums paid or received, of the Company's derivative portfolio as at December 31, segregating derivative instruments between those that are in a favourable or receivable position from those in an unfavourable or payable position. Fair value is obtained from external sources and is defined as the net present value of expected future cash flows of all contracts discounted at a rate commensurate with the risks involved.

	1996			1995		
	FAVOURABLE	UNFAVOURABLE	NET FAIR VALUE	FAVOURABLE	UNFAVOURABLE	NET FAIR VALUE
Interest rate swaps	$ 4,364	$ (819)	$ 3,545	$ 4,501	$ (580)	$ 3,921
Cross currency swaps	5,215	(6,951)	(1,736)	2,492	(7,740)	(5,248)
	$ 9,579	$ (7,770)	$ 1,809	$ 6,993	$ (8,320)	$ (1,327)

5. Provision for Future Policy Benefits

The nature and method of determining the more significant assumptions made by the Company in the computation of the provision for future policy benefits are described in the following paragraphs:

Policy Claims and Benefits

Estimates of the amounts and timing of future claims and benefit payments are based on Company and industry experience over extended periods. Although the pattern of claims and benefit payments may turn out to be close to that indicated by past experience, some deviation from that pattern is probable.

Policy Lapse Rates

Policyholders may allow their policies to lapse by choosing not to continue to pay premiums. The Company bases its estimate of future lapse rates on a combination of published industry experience and its own internal lapse experience studies. Deviations from the expected lapse rate will impact future profits and accordingly, the Company reviews its lapse rate assumptions annually to ensure that emerging trends in lapse rate experience on each major business segment are appropriately reflected in current reserve calculations. The policy liabilities include a provision of $3,715 for adverse lapse experience which will be included in future income to the extent not required to offset lower than expected policy lapses.

Investment Income

The computation of policy liabilities takes into account projected net investment income on assets supporting policy liabilities and income expected to be earned or foregone on financing of mismatched cash flows. Uncertainties associated with projections of interest rates at which future cash flows can be reinvested have been taken into account by testing the sensitivity to plausible future interest rate environments. A provision for Interest Rate Environment Risk is set up based on the results of this sensitivity analysis. This provision is $70,385.

Future net investment income is affected by the magnitude of credit losses from asset defaults. In addition to allowances for loan impairment applied as direct reductions to the carrying values of invested assets, the policy liabilities include a provision for future asset default on the assets backing the policy liabilities. The provision, including a margin for adverse deviation, at December 31, 1996 was $58,795 (1995 - $59,562) and was determined by considering the credit risk characteristics of the portfolio of assets backing the policy liabilities.

Policy Maintenance Expenses

Amounts are included in policy liabilities to provide for the costs of administering policies in force and include the costs of premium collection, adjudication and processing of claims, periodic actuarial valuations, preparation and mailing of policy statements, related indirect expenses and a fair share of overhead. The process of forecasting expenses requires estimates to be made of such factors as inflation, salary rate increases, productivity changes, new business volumes and indirect tax rates. Estimates of future policy administration costs are based on the Company's current per unit costs adjusted for the expected rate of inflation.

Policyholder Dividends

Policy liabilities include the present value of estimated amounts of future policyholder dividends based on current dividend scales and expected future income attributable to participating policies.

6. Reinsurance

In the normal course of business, the Company limits the amount of loss on any one event (death, disability, etc.) by reinsuring with registered professional reinsurers. The maximum risk retained per event is governed by a risk retention policy. The following table indicates the volume retained and reinsured as at December 31:

	1996	1995
Face value of inforce policies - life	$ 49,680,000	$ 51,199,000
Reinsurance ceded	(13,345,000)	(20,966,000)
Risk retained	$ 36,335,000	$ 30,203,000
Number of lives	710,887	681,107
Average risk retained per life	$ 51	$ 44
Maximum retention per life	$ 200 - 500	$ 200 - 500

Reinsurance ceded does not discharge the Company's liability as the primary insurer. Failure of reinsurers to honour their obligations could result in losses to the Company; consequently, allowances are established for amounts deemed uncollectible. A contingent liability exists should an assuming company be unable to meet its obligations. The Company evaluates the financial condition of its reinsurers and monitors concentrations of credit risk with its reinsurers to minimize its exposure to losses from reinsurer insolvency.

The amounts shown in the financial statements are net of the following amounts relating to reinsurance ceded to other insurers:

	1996	1995
Provision for future policy benefits	$ 513,750	$ 505,048
Premiums	$ 79,261	$ 95,254
Policy benefits	$ 70,713	$ 70,550
Commissions and operating expenses	$ 5,870	$ 3,063

7. Other Liabilities

At December 31, other liabilities consist of:

	1996	1995
Accounts payable	$ 13,643	$ 23,963
Accrued liabilities	4,283	3,261
Acquisition liabilities	25,377	6,596
Due to segregated funds	13,377	4,694
Taxes, licenses, fees payable	2,870	3,645
Accrued interest on subordinated debt	970	859
Miscellaneous	4,316	8,630
	$ 64,836	$ 51,648

8. Notes Payable Under Reinsurance Arrangements

The Company has entered into two reinsurance arrangements covering a $124,512 liability on the recently acquired block of par business *(see note 16)*. Under these arrangements, the Company issued notes payable to the reinsurers in an amount equal to the liability in lieu of transferring assets. The notes bear interest at a rate equal to the rate of return on the related portfolio. At December 31, 1996, the outstanding balance owing under these notes was $115,295 (1995 - $116,841).

9. Subordinated Debt

The subordinated debt is payable to the parent company, bears interest at 10% per annum payable semi-annually and matures October 15, 2003. The debt is subordinated in right of payment to all policy liabilities of the Company and all other liabilities except those that, by their terms, rank equally with or subordinate to this debt.

Total interest expense of $4,613 (1995 - $4,015) related to this debt is included in the statements of income.

10. Distribution of Income

Distributions of income to shareholders and to participating policyholders are established by resolutions of the Board of Directors. From time to time, the Board of Directors sets apart a portion of the income of the participating account as safe and proper for distribution as dividends or bonuses.

Of the amount set apart, the shareholders are entitled to a portion as specified in the governing statute. The amount eligible for future transfer to shareholders can be transferred only when further dividends are paid to participating policyholders. The cumulative amount eligible for future transfer of $597 at December 31, 1996 (1995 - $806) is included in the participating account.

As at December 31, the cumulative amount of $6,159 (1995 - $7,258) of the participating account has been allocated to policyholders but has not yet been distributed by way of declared dividends.

11. Share Capital

		1996	1995
Authorized:			
3,960,000	first preferred shares issuable in series		
200,000	common shares		
Issued:			
1,400,000	first preferred shares, series A non-voting, cumulative and redeemable at the Company's option at their par value of $25.00	$ 35,000	$ 35,000
189,294	common shares	53,745	53,745
		$ 88,745	$ 88,745

12. Investment Income

Investment income was derived from the following sources:

	1996	1995
Bonds and debentures	$ 83,482	$ 73,644
Mortgages	163,418	166,750
Stocks	35,331	14,895
Real estate	11,820	8,121
Loans to policyholders	5,415	5,220
Other	3,984	5,934
Short-term investments	5,086	10,587
Amortization of deferred gains and losses		
Bonds and debentures	3,433	553
Mortgages	(996)	(1,079)
Stocks	2,324	2,514
Real estate	(984)	(1,319)
Investment expenses	(27,467)	(26,205)
	$ 284,846	$ 259,615

13. Income Taxes

The income tax expense (recovery) for the year consists of:

	1996	1995
Current income taxes	$ 14,054	$ 6,690
Deferred income taxes	(5,696)	(699)
	$ 8,358	$ 5,991

The provision for income taxes varies from the expected provision at statutory rates for the following reasons:

	1996	1995
Provision for income taxes at statutory rate of 45.2% (1995 - 43.3%)	$ 13,273	$ 13,887
Increase (decrease) from statutory rate:		
Tax reduction on Canadian dividends	(6,989)	(5,922)
Large corporations tax	524	503
Discounting of future taxes	688	(2,503)
Change in statutory rates	336	–
Other	526	26
	$ 8,358	$ 5,991

14. Net Income to Shareholders

Net income to shareholders has been derived from the following sources:

	1996	1995
Participating business	$ 1,836	$ 1,603
Non-participating business	20,512	22,466
	$ 22,348	$ 24,069

15. Earnings Per Share

Earnings per share is calculated after adjusting net income for the amount of income attributable to preferred shareholders as follows:

	1996	1995
Net income to shareholders	$ 22,348	$ 24,069
Deduct: Preferred shareholder dividends	1,620	2,175
Net income attributable to common shareholders	**$ 20,728**	**$ 21,894**
Earnings per share attributable to common shareholder *(in dollars)*	**$ 109.50**	**$ 115.66**

16. Acquisition of Block of Business

On March 14, 1995, the Company entered into an Assumption Reinsurance Agreement (the "Agreement") with OSFI, acting in the capacity of provisional liquidator of Confederation Life Insurance Company, which closed on May 1, 1995. Under this Agreement, the Company assumed a block of life, health and segregated fund policies of Confederation Life effective from August 12, 1994.

The Company agreed to assume these policy obligations at amounts equal to the greater of (a) the realization percentage of assets ultimately declared by the liquidator of Confederation Life to be available to policyholders and (b) the limits established by the Canadian Life and Health Insurance Compensation Corporation (CompCorp). On closing, an initial estimate of the realization percentage was used in calculating policy liabilities, being 70 per cent. Subsequent increases to the realization percentage result in the transfer of additional assets from OSFI. The realization percentage was increased on December 16, 1996 to 80 per cent.

In connection with this transaction, the Company received assets which had a fair market value as follows:

	MAY 1995	DECEMBER 1996 ADJUSTMENT	TOTAL
Cash and short-term investments	$ 167,543	$ 9,045	$ 176,588
Bonds	305,130	6,723	311,853
Other assets	78,263	64	78,327
Total consideration	**$ 550,936**	**$ 15,832**	**$ 566,768**

This transaction was accounted for as a purchase transaction with an acquisition date of May 1, 1995. As the tangible assets received substantially equalled the liabilities assumed, there is no goodwill on the transaction.

Also under the Agreement, the Company agreed to pay 100 per cent of the death claims on a block of policies until December 31, 1996 regardless of the CompCorp limits or the realization percentage. Subsequently the Company has announced its intention to increase this period by one year. This obligation has been provided for in policy liabilities.

Approximately $37,000 of the consideration received was for disability policies. Immediately upon assumption, the Company entered into reinsurance agreements to cede the entire liability on this block of policies. On January 1, 1996, this block of business was sold for an amount equal to its book value.

As part of the Agreement, the Company assumed management of segregated fund assets of $93,316.

17. Pension Plans

The Company maintains a defined benefit pension plan which covers substantially all of its employees. At December 31, 1996, the accrued benefit obligation was $34,884 (1995 - $31,246). The value of assets recorded in the plan was $43,450 (1995 - $38,156).

18. Contingent Liabilities

From time to time in connection with its operations, the Company is named as a defendant in actions for damages and costs allegedly sustained by the plaintiffs. While it is not possible to estimate the outcome of the various proceedings at this time, such actions have generally been resolved with minimal expenses in excess of amounts provided for in policy liabilities and the Company does not believe that it will incur any significant additional loss or expense in connection with such actions.

19. Commitments

The Company had outstanding mortgage commitments at December 31, 1996 of $53,363 (1995 - $28,370) and outstanding private placement commitments of $52,667 (1995 - $53,877).

20. Related Party Transactions

During 1995, the Company approved a commitment to advance $6,000 to an investment fund. The administrator of the fund is related to a member of the Board of Directors. In 1996, the commitment was increased to $11,000. The funds were fully advanced during 1996. The related party transactions described in the preceding paragraph and note 9 were approved by the Conduct Review Committee.

21. Segmented Information

Management has determined that the Company operates in one dominant industry segment which involves sales and services relating to individual and group life and health insurance and annuity products. All of the Company's operations, assets and employees are located in Canada.

22. Comparative Figures

Certain of the 1995 figures presented have been reclassified to conform to the presentation adopted in 1996.

Board of Directors
As of December 31, 1996

William A. Black (16/17)
Halifax, Nova Scotia 1,4,5
President and Chief Executive Officer
The Maritime Life Assurance Company

John L. Bragg, Q.C. (9/9)
Oxford, Nova Scotia 4
President, Oxford Frozen Foods Ltd.

Ronald B. Coleman (12/14)
Calgary, Alberta 2,5
President,
R.B. Coleman Consulting Co. Ltd.

J. Dickson Crawford (13/13)
Halifax, Nova Scotia 2,4

John R. D'Eathe (9/9)
Vancouver, British Columbia 5
President, Freehold Development Canada Ltd.

Rob P. Dexter, Q.C. (12/14)
Halifax, Nova Scotia 5,6
Chairman and Chief Executive Officer
Maritime Marlin Travel

Edward P. Dowd (13/14)
Boston, Massachusetts 2,5
Senior Vice President
John Hancock Mutual Life
Insurance Company

MGen. (Ret'd.) M. Scott Eichel (9/9)
Victoria, British Columbia 4

Lawrence J. Hayes, Q.C. (15/15)
Halifax, Nova Scotia 2,3,5
McInnes, Cooper & Robertson

Jean C. Lavoie (14/14)
Montréal, Quebec 2,5
Special Advisor
Raymond, Chabot, Martin, Paré

John W. Lindsay (17/17)
Dartmouth, Nova Scotia 1,5,6
Chairman of the Board
J.W. Lindsay Enterprises Ltd.

Douglas G. MacKenzie (10/15)
Brampton, Ontario 2,3,4
President, Chief Executive Officer and
Vice Chairman, Commercial Alcohols Inc.

J. Paul McDonnell (1/9)
Boston, Massachusetts 4
Senior Vice President
John Hancock Mutual Life
Insurance Company

Thomas E. Moloney (17/17)
Boston, Massachusetts 1,5,6
Chief Financial Officer
John Hancock Mutual Life
Insurance Company

Jocelyne Pelchat (12/14)
Mount-Royal, Quebec 3,4,6
Pelchat International

Robert R. Reitano (8/9)
Boston, Massachusetts 5
Vice President
John Hancock Mutual Life
Insurance Company

Corporate Secretary
Heather M. Hannon, LL.B.

Honourary Directors

Dr. D. Andrew Eisenhauer
Lunenburg, Nova Scotia

Dr. Reva D. Gerstein,
O.C., O.Ont., PhD., LLD, DLitt.
Toronto, Ontario

Arthur R. Lundrigan, O.C.
Corner Brook, Newfoundland

George B. Robertson, C.M.M., Q.C.
Halifax, Nova Scotia

Executive Management
As of December 31, 1996

William A. Black, FCIA, FSA
President and Chief Executive Officer

Norman N. Ayoub, CLU (B)
Senior Vice President,
Individual Insurance

Kirk D. McIntyre, FCIA, FSA
Senior Vice President,
Investment Products

Robert M. Nicholas
Senior Vice President,
Group Insurance

Philip J. Pothier, FCIA, FLMI, FSA
Senior Vice President and
Chief Financial Officer

Peter A. Stuart, CFA
Senior Vice President
Chief Investment Officer

Byron Corner, FCIA, FSA
Vice President and Chief Actuary

Al Hillier, FLMI, CDP
Vice President, Corporate Services

C. Dominick Williams, FLMI (B)
Vice President, Investments

Madeleine N. Clare, FLMI, ISP
Director, Investment Products
Customer Service

Norm Collins, FCIA, FLMI, FSA
Director, Life Finance

Erin Flannery, FLMI, ACS
Director, Agency Services

Jan Imeson, CA
Controller

Joanne Keigan, FCIA, FSA
Director, Group Finance, Actuarial,
Systems and Administration

Ann M. Kyle
Director, Group Insurance

J. Paul Lynch
Director,
Life Product Administration

Gary E. Martin, FLMI
Director, Bonds and
Corporate Finance

Ted M. Moffatt, ASA, FLMI (M)
Director, Investment Products,
Finance and Sales

Terry Morrison
Director, Group Marketing and
Trusteed Services

Guy Poliquin, FSA, FCIA
Director, Product Development

David R. Rathbun, FLMI
Director, Human Resources

A. Harrison Robbins, CA
Director, National Marketing

Michael J. Sanford
Director,
Ontario Client Service Centre

David M. Star
Director, Investment Products

Catherine J. Woodman, APR
Director, Corporate and Public Affairs

The bracketed numbers following each name indicate total number of board and committee meetings which the director actually attended followed by the number they were eligible to attend in the 12 months ended December 31, 1996. The numbers following the director's place of business indicate the board committee memberships.
1 - Member of the Executive Committee, 2 - Member of the Audit Committee, 3 - Member of the Conduct Review Committee,
4 - Member of the Customer Issues Committee, 5 - Member of the Investment Committee, 6 - Member of the Personnel and Compensation Committee

Mandate of the Board of Directors

The general duty of the Board of Directors is to supervise the management of the business of Maritime Life. The Board expects management to operate the company in a financially sound and ethical manner, fostering growth and profit, and to provide clear and concise information on the operations and propose future actions. A key aspect of the Board's supervision is the approval of strategic business plans and financial strength. In addition, the Board approves annual reports, financial statements and dividend scales, and appoints officers and the external auditor.

The Board also oversees the affairs of Maritime Life through committees. The Executive Committee has authority to act on behalf of the Board in connection with company business between the sittings of the Board of Directors, subject to ratification by the Board. The Investment Committee authorizes the investing and lending of the funds of the company, all subject to the provision of the Insurance Companies Act (Canada). The Conduct Review Committee reviews transactions with related parties of the company and policies and practices with respect to such transactions. The Customer Issues Committee reviews marketing strategies, marketing conduct and the level of customer satisfaction. The Audit Committee's mandate is to review the company's internal controls, accounting, auditing and reporting practices, and the adequacy of disclosure to policyholders and shareholders. The Personnel & Compensation Committee approves compensation for employees of the company, recommends appointment of company officers and advises management on human resource related issues.

Maritime Life looks for breadth of expertise in recruiting new directors, seeking a diversity of professional backgrounds and national representation. In addition, the company benefits from the experience of the Board members drawn from our parent John Hancock.

All of Maritime Life's common shares are owned by John Hancock Mutual Life Insurance Company through a Canadian holding company. Hancock executives are actively involved on the company's Board and shareholder feedback is provided for in this manner.

Composition of the Board of Directors

Only one of Maritime Life's 16 directors is not independent of management. Mr. William A. Black is a full-time officer of the company. Of the remaining 15 independent directors, 11 are unrelated to the company in any manner whatsoever, while four directors are employed by Maritime Life's parent and holder of 100 per cent of the common shares.

HALIFAX
Head Office

2701 Dutch Village Road
Halifax, Nova Scotia
Canada B3J 2X5

Tel 902.453.4300
Fax 902.453.7041

MARITIME LIFE

MONTREAL

999 De Maisonneuve Blvd. W
Suite 1200/1400
Montreal, Quebec
Canada H3A 3L4

Tel 514.288.4300
Fax 514.288.1494

TORONTO

2300 Yonge Street
Suite 2800
Toronto, Ontario
Canada M4P 1E4

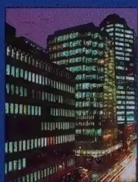
Tel 416.440.3699
Fax 416.440.3188

CALGARY

Alberta Stock Exchange
2040, 300 - 5th Avenue, SW
Calgary, Alberta
Canada T2P 3C4

Tel 403.261.3994
Fax 403.261.9673

VANCOUVER



888 Dunsmuir Street
Suite 1500
Vancouver, British Columbia
Canada V6C 3K4

Tel 604.689.1429
Fax 604.688.2140

Visit our web site at - www.maritimelife.ca

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